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SENSITIVE
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TAGS: [PREL](#) [ECON](#) [EINV](#) [MW](#) [RS](#)
SUBJECT: RUSSIANS ARE COMING TO MONTENEGRO - BUT SO ARE OTHERS

REF: A. A: 05 BELGRADE 2277

[1](#)B. B: 05 BELGRADE 1741
[1](#)C. C: 05 BELGRADE 718

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SENSITIVE BUT UNCLASSIFIED - PLEASE HANDLE ACCORDINGLY.

[1](#)1. (SBU) SUMMARY: THE RUSSIAN PRESENCE ON MONTENEGRO IS VISIBLE, YET OFTEN OVERSTATED BY MONTENEGRINS AND OUTSIDERS ALIKE. SINCE 1999, REPORTED RUSSIAN FOREIGN DIRECT INVESTMENT (FDI) HAS AMOUNTED TO EUROS 135 MILLION, OUT OF A TOTAL OF NEARLY EUROS 1 BILLION. THROUGH THE END OF 2006, THE ONLY LARGE FDI FROM RUSSIA WAS KAP. RUSSIA HAS HAD LITTLE EFFECT ON MONTENEGRO'S BROADER POLICY DIRECTION, WITH APPEALS FOR SLAVIC SOLIDARITY FROM SERVING RUSSIAN MINISTERS AND THE CONSUL GENERAL EQUALLY REBUFFED, AS PODGORICA PURSUES PFP, NATO, WTO AND THE EU. END SUMMARY.

RUSSIAN SHARE OF FOREIGN DIRECT INVESTMENT

[1](#)2. (U) FROM JANUARY 2001 THROUGH NOVEMBER 2006, FOREIGN DIRECT INVESTMENT (FDI) IN MONTENEGRO TOTALED EUROS 995 MILLION. (FDI PRIOR TO 2001 WAS ESSENTIALLY NON-EXISTENT, DUE TO CONFLICT AND SANCTIONS.) RUSSIAN FDI AMOUNTED TO EUROS 135 MILLION, 13.5 PERCENT OF THE TOTAL. THIS IS VASTLY LOWER THAN THE REPORTED ESTIMATE OF RUSSIAN PM PUTIN WHO CLAIMED EUROS 2 BILLION OF RUSSIAN INVESTMENT IN MONTENEGRO (AS REPORTED IN U.S. MEDIA IN LATE 2006). BEFORE REAL ESTATE SALES (INCLUDED IN GOM FDI STATISTICS) TOOK OFF IN 2006, RUSSIAN INVESTMENT WAS SEVEN PERCENT OF THE TOTAL FDI, AND PRIMARILY ATTRIBUTABLE TO RUSAL'S PURCHASE OF KOMBINAT ALUMINA PODGORICA (KAP - ALUMINUM FACTORY)

AND THE RELATED BAUXITE MINES NEAR NIKSIC. (REF A) MIDLANDS INDUSTRY, A UK-BASED BUT RUSSIAN-OWNED FIRM, WALKED AWAY FROM ITS 2004 ACQUISITION OF THE NIKSIC STEEL WORKS IN LATE 2005. IT HAD PAID THE NOMINAL SUM OF 1000 EUROS FOR THE PLANT BUT PROVED UNWILLING TO MAKE THE INVESTMENTS CALLED FOR BY THE CONTRACT.

RUSSIANS, BRITISH, EVEN SWISS (SORT OF) IN LAND RUSH

13. (U) THE PAST YEAR SAW SALES OF MONTENEGRIN REAL ESTATE, PARTICULARLY ALONG THE WATERFRONT, EXPLODE TO FOREIGNERS: EUROS 278.4 MILLION IN THE FIRST ELEVEN MONTHS, COMPARED TO EUROS 42.5 MILLION IN 2005, ACCORDING TO CENTRAL BANK OF MONTENEGRO (CBCG) STATISTICS. IN 2006, RUSSIANS BOUGHT PROPERTY WORTH EUROS 51.8 MILLION, AND IN 2005 THEY SPENT EUROS 12.3 MILLION; OVERALL, 19 PERCENT OF THE TOTAL FOR BOTH YEARS. IN 2005 AND 2006, THE BRITISH BOUGHT LAND VALUED AT EUROS 55.8 FOR 17.4 PERCENT OF ALL FOREIGN SALES. QUIETLY, "SWISS" MONEY BOUGHT REAL ESTATE VALUING EUROS 56.8 IN THE SAME PERIOD, OR 17.6 PERCENT. U.S. PURCHASERS SPENT EUROS 1.4 MILLION IN 2005 AND 15.7 MILLION IN 2006 (5.3 PERCENT). (NOTES: BASED ON DISCUSSION WITH LOCAL OFFICIALS, MOST OF THE "SWISS" BUYERS ARE PROBABLY KOSOVAR EMIGRES. STATISTICS DO NOT DISTINGUISH BETWEEN SALES OF COMMERCIAL AND INDIVIDUAL REAL PROPERTY. END NOTE.)

RUSSIAN OLIGARCH BUYS HEAVY INDUSTRIAL PLANT

14. (SBU) RUSAL, NOW THE WORLD'S LARGEST ALUMINUM PRODUCER HEADED RUSSIAN OLEG DERIPASKA, PURCHASED THE KOMBINAT ALUMINA PODGORICA (KAP - ALUMINUM FACTORY) AND THE RELATED BAUXITE MINES NEAR NIKSIC IN LATE 2005, PAYING EUROS 48.5 MILLION KAP, AND EUROS 9 MILLION FOR THE MINES. THE PRIVATIZATION AND SALE OF KAP, WHOSE REVENUES AT THE TIME EQUALED 12 PERCENT OF MONTENEGRO'S GDP, WAS STEEPED IN CONTROVERSY (REF A). KAP'S SHARE OF GDP IS RELATIVELY STEADY, AT 14 PERCENT IN 2006, RESULTING FROM STRONG GLOBAL AND LOCAL PRICES FOR ALUMINUM. DATA ON KAPS PRODUCTION AND REVENUE FOR 2006 IS NOT YET PUBLICLY AVAILABLE, AND THE NEW OWNERS HAVE DISCONTINUED PROVIDING INFORMATION TO THE GENERAL PUBLIC ABOUT THEIR OPERATIONS. INFORMATION PROVIDED TO POST IN FEBRUARY 2007 IS THAT KAP PRODUCED 121,322 TONNES OF ALUMINUM IN

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2006, AND HAD REVENUES OF USD 325,176,688 ON SALES OF 121,410 TONNES OF ALUMINUM. IN 2004 KAP REALIZED EUROS 200 MILLION IN REVENUE ON SALES OF 120,000 TONNES.

RUSSIAN INVESTMENT IN TOURISM

15. (U) WHILE RUSSIANS ARE NOT MAJOR INVESTORS IN MONTENEGROS TOURISM SECTOR, THEIR HOLDINGS ARE PROMINENT. THE HOTEL SPLENDID IN BECICI (NEAR BUDVA) UNDERWENT MASSIVE RECONSTRUCTION AFTER IT WAS ACQUIRED FROM THE GOVERNMENT FOR EUROS 2.4 MILLION IN LATE 2003 TO A GROUP OF RUSSIAN AND MONTENEGRIN INVESTORS: MONTENEGRO STARS GROUP. MONTENEGRO STARS OWNS THREE HOTELS NEAR BUDVA (THE OTHERS BEING HOTEL MONTENEGRO AND HOTEL BLUE STAR),

BUT IT IS THE SPLENDID THAT IS THE 800-POUND GORILLA ON THE BEACH, AND WHICH WAS SUBJECTED TO A BOMBING CAMPAIGN BY ORGANIZED CRIME ELEMENTS SEEKING TO EXTORT MONEY DURING ITS RECONSTRUCTION. (CF. U.S. MEDIA DECEMBER 2006) THE CHIEF OF THE MONTENEGRIN POLICE WAS ASSASSINATED IN AUGUST 2005 WHILE INVESTIGATING THE BOMBINGS AND OTHER ALLEGEDLY RELATED CRIMES (REF B). IN THE PAST MONTH, LOCAL MEDIA HAS REPORTED THAT THE RUSSIAN COMPANY "VAS INVEST MONTENEGRO" PAID EUROS 25 MILLION FOR 13 HECTARES OF "WASTELAND" SOUTH OF BUDVA, WITH THE GOAL OF BUILDING A HOTEL AND TOURIST VILLAS. THERE ARE NO OTHER MAJOR TOURISM INVESTMENTS FROM RUSSIA IN MONTENEGRO AT PRESENT. (NOTE: THE RECENT 30-YEAR LEASE OF SVETI STEFAN TO SINGAPORE'S AMAN RESORTS WILL ENTAIL AMAN PAYING AT LEAST EUROS 2.1 MILLION ANNUALLY IN RENT, PLUS MAKE EUROS 40 MILLION IN IMPROVEMENTS. END NOTE.)

MONTENEGRO-RUSSIA BANKING CONNECTIONS

¶6. (U) THERE IS SUBSTANTIAL FOREIGN OWNERSHIP OF MONTENEGRO'S BANKS, BUT COMING FROM FRANCE (PODGORICKA BANK - 1ST IN SIZE), SLOVENIA (MONTENEGRO BANKA - WHICH EARLIER ABSORBED EUROMARKET BANKA - 2ND IN SIZE), THE U.S. (OPPORTUNITY BANK - 3RD IN SIZE), HUNGARY (CRNOGORSKA KOMERCIJALNA BANKA - CVB - 4TH), AND AUSTRIA (HYPO-ALPO-ADRIA - 5TH). RUSSIA HAS MADE NO INVESTMENTS IN MONTENEGRO'S FINANCIAL SECTOR. CONVERSELY, THE SMALLER ATLASMONT BANKA, DOMESTICALLY OWNED, HAS A REPRESENTATIVE IN MOSCOW.

MONEY LAUNDERING

¶7. (U) PM PUTIN'S REPORTED COMMENT THAT RUSSIANS HAVE INVESTED EUROS 2 BILLION HERE CONTRASTS WITH THE 135 MILLION REPORTED TO THE CENTRAL BANK OF MONTENEGRO (CBCG). MONTENEGRO, THROUGH ITS STATE PROSECUTOR FOR ORGANIZED CRIME AND ITS ADMINISTRATION FOR THE PREVENTION OF MONEY LAUNDERING (FINANCIAL INTELLIGENCE UNIT - FIU), HAS CRACKED DOWN ON MONEY LAUNDERING, AND RUSSIANS HAVE BEEN CAUGHT UP IN THEIR NETS. IN DECEMBER, TWO RUSSIANS (REPORTED AS SERGEJ ILIN, AGE 47, AND JOSIF KARMAH, AGE 45) WERE ARRESTED ON MONEY LAUNDERING CHARGES AT THE PODGORICA AIRPORT AS THEY TRIED TO EXIT WITH EUROS 790,000 IN CASH; REPORTEDLY, THEY HAD BEEN UNSUCCESSFUL IN THEIR EFFORTS TO BUY REAL ESTATE. ON FEBRUARY 1, THE STATE PROSECUTOR FOR ORGANIZED CRIME ANNOUNCED THE ARREST OF FOUR RUSSIAN CITIZENS (NFI) FOR ATTEMPTING TO LAUNDER EUROS 2.5 MILLION DERIVED FROM FOREIGN CRIMINAL ACTIVITIES THROUGH LOCAL BANK ACCOUNTS OF "STOREFRONT" LOCAL COMPANIES.

GOR SEEKS INFLUENCE, GETS PRESS ATTENTION

¶8. (U) THE GOR WOULD LIKE TO RESTORE ITS INFLUENCE IN MONTENEGRO; BEFORE 1914, MONTENEGRO'S CLOSEST OFFICIAL TIES WERE WITH RUSSIA, AND INCLUDED MARRIAGES BETWEEN THE RESPECTIVE ROYAL

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FAMILIES. RECENT COMMENTS AND ACTIONS BY GOR OFFICIALS HAVE DONE

MORE TO IRRITATE MONTENEGRINS THAN BUILD FRIENDSHIPS, HOWEVER. ON AUGUST 8, AFTER MEETING WITH THEN-PM DJUKANOVIC, RUSSIA'S MINISTER FOR EXTRAORDINARY SITUATIONS, SERGEY SHOIGU, GAVE AN INTERVIEW TO THE LEADING LOCAL PAPER. HIS "WARNING" THAT MONTENEGRO RISKED ITS FRIENDSHIP WITH RUSSIA IF IT CONTINUED TO PURSUE TIES WITH NATO IRRITATED A BROAD RANGE OF THE MONTENEGRIN PUBLIC, AND DID NOTHING TO DETER THE GOM FROM SEEKING AND GAINING MEMBERSHIP IN NATOS PARTNERSHIP FOR PEACE IN DECEMBER. ACCORDING TO MEDIA REPORTS CONFIRMED BY CONTACTS IN THE GOM, PM DJUKANOVIC DISCUSSED A DEFENSE RELATIONSHIP WITH PM PUTIN IN THEIR LATE AUGUST MEETING IN SOCHII, BUT APPARENTLY NOTHING HAS COME OF THAT TALK, WHILE THE GOM IS IN CLOSE CONSULTATIONS WITH BOTH NATO AND THE USG ON PLANNING ITS NATIONAL SECURITY AND DEFENSE POLICIES.

¶9. (U) OTHER GOR OFFICIALS HAVE SMUDGED RUSSIA'S IMAGE IN MONTENEGRO AS WELL. IN APRIL 2005 THE FORMER CONSUL GENERAL GAVE A SCATHING INTERVIEW TO THE LOCAL OPPOSITION PAPER, CRITICIZING MONTENEGRO'S CLOSE RELATIONSHIP WITH THE USG, WHICH PROMPTED THE FM TO CONVOKE THE CG (REF C). IN 2006, THE RUSSIAN PRESS ATTACHE WAS WHISKED OUT OF MONTENEGRO AFTER HIS CAR CRASHED INTO ANOTHER IN PODGORICA, KILLING THREE MONTENEGRINS; LOCAL MEDIA HIGHLIGHTED THE STORY, PARTICULARLY REPORTS THAT THE ATTACHE WAS DRUNK AND SPEEDING. IN HERCEG NOVI, LOCAL MEDIA IN LATE JANUARY REPORTED PUBLIC ANGER AT THE MAYOR OF MOSCOW, JURIJ LUSKOV, WHO HAS CLOSED A TIME-HONORED EASEMENT ACROSS PROPERTY HE RECENTLY PURCHASED THERE, PRECLUDING ACCESS TO THE BEACH. (LUSKOV PUBLICLY SUPPORTED MONTENEGRIN INDEPENDENCE IN THE RUN-UP TO LAST MAY'S VOTE.)

NOTE ON SOURCES

¶10. (U) STATISTICS IN THIS REPORT COME FROM THE CENTRAL BANK OF MONTENEGRO AND THE GOM'S MONTENEGRO INVESTMENT PROMOTION AGENCY (MIPA). FDI IN MONTENEGRIN STATISTICS INCLUDES SALES OF COMPANIES AND REAL ESTATE, ALTHOUGH REAL ESTATE WAS A SMALL COMPONENT OF FDI PRIOR TO 2006.

COMMENT

¶11. (SBU) THE RUSSIAN PRESENCE IN MONTENEGRO IS NOTICEABLE, BUT HAS TO DATE NOT RESULTED IN SIGNIFICANT INFLUENCE. NOR IS THE PRESENCE AS LARGE AS OFTEN REPORTED. CONTRARY TO POPULAR PERCEPTION, KAP WAS NOT MONTENEGRO'S LARGEST PRIVATIZATION. PROMONTE (TELECOMMUNICATIONS) WAS PURCHASED BY NORWAY'S TELENOR FOR EUROS 116 MILLION IN 2004. HUNGARY'S MATAV RT BOUGHT PRO MONTES COMPETITOR TELEKOM CG IN 2005 FOR EUROS 114 MILLION, AND HELLENIC PETROLEUM BOUGHT JUGOPETROL AD KOTOR IN 2002 FOR EUROS 100.5 MILLION. OVERALL, SLOVENIA HAS MADE THE LARGEST INVESTMENTS IN MONTENEGRO; RUSSIA IS SEVENTH.

¶12. (SBU) STORIES ABOUT MYSTERIOUS RUSSIAN MAFIA OR BUSINESSMEN (USUALLY SEEN AS THE SAME THING IN LOCAL POPULAR CULTURE) SELL, AND CONTRIBUTE TO AN EXAGGERATED PERCEPTION OF A LARGE RUSSIAN PRESENCE. ADDITIONALLY, THE OPPOSITION AND OTHERS ARE KEEN TO PORTRAY THE GOM AS CORRUPT, AND PORTRAYING GOVERNMENT OFFICIALS AS TURNING A BLIND EYE TO, OR EVEN BEING IN COLLUSION WITH, RUSSIAN BUSINESSMEN WHO CAN BE PORTRAYED AS UNIFORMLY CORRUPT AND CORRUPTING. THE RECENT ARRESTS UNDERSCORE THE POPULAR PERCEPTION OF A LARGE AND SHADOWY RUSSIAN PRESENCE. POST VIEWS THE ARRESTS AS A POSITIVE INDICATOR, CONTRIBUTING TO ITS CONFIDENCE THAT THE GOM'S PRO-WESTERN POLICIES, AND MONTENEGRO'S

COMMITMENT AT ALL LEVELS TO A FREE MARKET ECONOMY, COUPLED WITH
MEDIA REPORTING, COULD SERVE AS A CHECK ON EXCESSIVE RUSSIAN
INFLUENCE IN MONTENEGRO. END COMMENT.
BARNES